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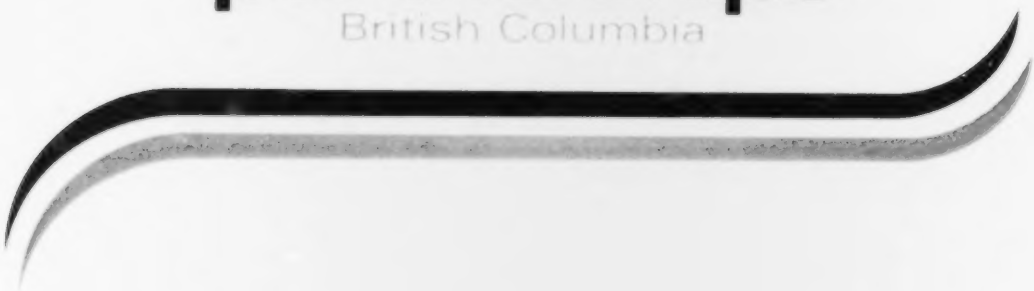
British Columbia



ANNUAL REPORT

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British Columbia

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PARTNERSHIPS BRITISH COLUMBIA INC
1250, 999 WEST HASTINGS STREET
VANCOUVER, BC
V6C 2W2

or visit our Web site at
www.partnershipsbc.ca

Message from the President and CEO

It is my pleasure to present the first annual report for Partnerships British Columbia (Partnerships BC). It documents our first nine months of operation, during which we focused on three key objectives: setting clear strategic direction, implementing our business functions and making real progress in delivering on our mandate. We moved forward in achieving each objective in 2002/03.

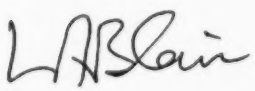
We assembled a new executive team to lead and encourage innovation. We set out – in the company's first service plan and business plan – goals, objectives and accountability measures to guide our work for the next three years. We concluded a Partnership Agreement with the Province, providing a framework for business relationships with client ministries/agencies and allowing for special appropriations to fund early public-private partnerships (P3) project development.

To implement our business model we opened our Vancouver office; added a corporate relations capacity; redesigned internal management and financial systems and dramatically improved our Web site. We also developed qualified "stables" of business, financial and legal advisors to supplement our in-house staff, creating a unique blend of public and private sector experience and expertise.

Drawing on talents from both sectors, we made significant strides in developing our client base and business opportunities. By year's end, we were involved in 12 major projects and actively promoting British Columbia's P3 marketplace.

We will continue to strive for P3 successes by focusing on projects supported by sound business cases, and by addressing implementation challenges in areas such as financing, legislation, risk-transfer, management and governance. We will further our priority based infrastructure projects and, with the input of our Board of Directors, recommend solid business opportunities to government. We will also continue pursuing our goal of becoming commercially viable by 2005/06.

We know from the experience of other jurisdictions that P3s can deliver multiple benefits, such as better, more cost-efficient delivery of services to meet public needs; increased innovation, efficiency and flexibility; lower levels of public sector risk and debt; and new investment that will foster economic growth. We have made significant progress in our first nine months and I look forward to building on that record in the year ahead.



Larry Blain
President and Chief Executive Officer
Partnerships British Columbia

partnerships
British Columbia

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Corporate profile

Partnerships British Columbia is a company owned by the Province and governed by a board of directors reporting to its shareholder, the BC Minister of Finance.

Established under the *Company Act* in May 2002, Partnerships BC is part of the government's strategic plan to deliver public services effectively and affordably. It began operations on June 30, 2002, providing public agencies with expert advice and support to explore and, where supported by a sound business case, to implement P3s and other innovative approaches to providing public infrastructure and services.

The company's primary focus is on P3s – contractual arrangements between the government and the private sector, developed to create physical assets such as buildings and related services, where these assets or services have typically been provided by the public sector. The goal is to combine the best capabilities of the public and private sectors for mutual benefit – meeting the needs of taxpayers, reducing government risk and debt, stimulating economic growth and investment, and giving the private sector access to secure, long-term investment opportunities.

P3s are a cornerstone of the Province's program to improve service delivery and encourage economic development. The company's clients are public sector agencies, including ministries, Crown corporations and local authorities such as districts and boards.

To serve these clients effectively, Partnerships BC has offices in both Vancouver and Victoria, and works to build strong relationships with private sector partners such as businesses, investors and the financial services sector. The company's core staff of 22 is supplemented, as required, by expert consultants and temporary staff. Services provided during 2002/03 ranged from project advice to leadership/management in the area of P3s and asset disposition – in keeping with the company's vision, mission and values.

Vision

A commercially viable company recognized worldwide for innovation and leadership in facilitating P3s and other new approaches that provide value-for-money solutions for public agency clients.

Mission

To serve public agencies in achieving optimal service delivery and maximum value for their infrastructure investments through P3s and other innovative, cost-effective solutions.

Values

- Innovation
- Protecting the Public Interest
- Strong Fiscal and Risk Management
- Accountability
- Respect and Integrity

The Year in Review – Report on Performance

The 2002/03 fiscal year was a time of transition for Partnerships BC. The company dedicated significant resources to issues such as staffing, executive recruitment and organizational development – including the establishment of goals, objectives, performance measures and targets. It also began developing strategies to mitigate risks and overcome challenges, such as those related to the limited nature of P3 capacity in Canada in both the public and private sectors; the growing sophistication of the P3 market; and the length of time required to complete complex projects.

The company will continue to work in the year ahead to ensure that risk is shared appropriately between the public and private sectors in P3 arrangements; to communicate the benefits of P3s; and to create a climate that stimulates the growth of P3 expertise and investment. It will draw on the experience of other jurisdictions to apply proven models, avoid common pitfalls and create a unique, made-in-BC approach that gets the right results.

The company undertook the development of a formal performance framework in fiscal 2002/03. Therefore, the following section lists key achievements according to the goals set for 2003/04 – 2005/06. A comprehensive report on performance will be included in the company's next annual report. For detailed information on goals, objectives and performance measures, see the company's service plan at www.partnershipsbc.com

Goal One: To assist client ministries/agencies in the procurement of major capital assets by providing innovative P3 solutions that result in value for money, while protecting the public interest.

In 2002/03, Partnerships BC:

- Worked with client agencies to develop P3 projects and strategic asset dispositions. At year's end, the company was actively involved in 12 major P3 projects, four of which were in the market place as of March 31, 2003 (see Table 1 for further details).
- Provided technical advice and leadership on P3 assessment, procurement and related activities such as strategic asset disposition. This included assisting agencies to develop options and business case analyses, risk analyses, public interest assessments and deal structuring. The company also assisted clients to prepare solicitation documents such as Requests for Proposals and Requests for Expressions of Interest to engage partners from the private sector.

Goal Two: To become a commercially viable organization.

In 2002/03, Partnerships BC:

- Assembled a strong executive team and a core staff of 22, creating a unique blend of public and private sector knowledge, expertise and experience, supplemented by the use of expert business, financial and legal advisors.

- Entered into a Partnership Agreement with the Province and project engagement agreements with client agencies outlining roles, responsibilities and financial remuneration for the company (i.e. work and project success fees).
- Made significant progress developing and implementing policy and procedural frameworks for the company's governance, financial and corporate operations.

Goal Three: To increase provincial public-private partnership capacity.

In 2002/03, Partnerships BC:

- Established strong working relationships with provincial agencies such as the ministries of transportation and health, and with regional health authorities.
- Built strategic alliances with other provinces, and with P3 organizations such as Partnerships UK and Australia's Partnerships Victoria.
- Worked to expand British Columbia's base of P3-related knowledge, understanding and expertise through activities such as forums, seminars and public presentations by executive and senior staff, as well as the development of a corporate Web site and educational materials. The Web site includes a partnering system that links BC businesses with international expertise and helps to encourage P3 participation.
- Began to address a variety of P3 policy and technical issues such as the Province's approach to Public Sector Comparators and Multi Criteria Analysis.

TABLE 1: Major projects under way as of March 31, 2003 included the following:

Projects in the Marketplace	
Academic Ambulatory Care Centre (AACC) at Vancouver General Hospital	Partnerships BC is acting as an advisor to the Vancouver Coastal Health Authority in developing a P3 to carry out this project.
Abbotsford Hospital and Cancer Agency	Partnerships BC is managing this project on behalf of the Fraser Health Authority, the Provincial Health Services Authority and the Ministry of Health Services; the P3 service bundle is the most comprehensive in Canada, incorporating all non-clinical services.
Coquihalla Highway	Partnerships BC began work in 2002/03 to initiate and lead a competitive process to select a private partner to operate and service the 109-kilometre stretch between Hope and Merritt.
RAV Rapid Transit Project	Partnerships BC in 2002/03 began preliminary work as P3 advisor for the Province on a proposed rail rapid transit line connecting central Richmond, the Vancouver Airport and Sea Island, Cambie Corridor, central Broadway and downtown Vancouver.
Potential Projects Under Development	
Sierra Yoyo Desan Road	Partnerships BC is working to develop and implement a P3 that will provide 100% of the multi-year funding for improvements, operation, maintenance and administration for the road, which serves the oil and gas industry northeast of Fort Nelson.
Fraser River Crossing	Partnerships BC is the P3 procurement manager for the Ministry of Transportation in this project to provide an alternative to the Pitt River and Port Mann bridges and meet the growing demand for transportation corridors connecting Langley and Surrey to Maple Ridge and Pitt Meadows.
Okanagan Lake Bridge	Partnerships BC is the P3 procurement manager for the Ministry of Transportation in this project to replace the bridge and improve Highway 97 through Kelowna.
Sea to Sky Highway	In 2002/03, Partnerships BC began developing a business case for the multi-million dollar project to improve the highway's safety, reliability and capacity between Vancouver and Whistler; Partnerships BC is P3 procurement manager for this project, on behalf of the Ministry of Transportation.
Other Core Review and Related Transition and Strategic Asset Disposition Projects	
The Bridge Studios	Partnerships BC is acting as the agent for the Ministry of Competition, Science and Enterprise and the BC Pavilion Corporation for the sale of this government-owned film and television production facility in the lower mainland.
Burns Bog	Partnerships BC is leading negotiations to support the government's commitment to obtain and protect Burns Bog at a fair market price.
Pacific National Exhibition	Partnerships BC (representing the Ministry of Competition, Science and Enterprise) continued negotiations with the City of Vancouver in 2002/03 to transfer control of the PNE (annual fair, Playland and convention/exhibition services) to the city by January 1, 2004.
Knowledge Network	In 2002/03 the Minister of Finance assigned Partnerships BC to review alternative models for consideration with regard to the future direction of the Knowledge Network.

For further details, go to www.partnershipsbc.com

Financial Report

Management discussion and analysis

Partnerships BC was created in May 2002 by combining the operations of the Capital Division of Treasury Board Staff and the Business Partnerships Division of the Ministry of Finance. To limit start-up costs, the company adopted an existing corporate governance structure (from a government entity that ceased operations in March 2002). Because Partnerships BC is a new organization, no historic financial information is available.

During 2002/03, the company held a strong cash position and financed all operating and project related expenditures with cash, not debt. It ended the year with a loss of $26,930, attributed to:

1. Set-up costs for offices in Vancouver and Victoria, including moving, staffing and policy development.
2. A still-developing client base, which restricted the potential for projects and related revenues.
3. The necessary investment of resources into researching new opportunities for future consideration. These costs are included in operating expenses.

Business and policy environment

Government has set clear policy direction and committed to exploring P3s and related options. Combined with private sector interest, to drive demand and provide a framework for operations.

Risks foreseen in the year ahead include: limited market capacity to undertake simultaneous major capital projects; limited experience, in both the public and private sectors, to carry out complex P3 projects; and risks related to project delays, which could affect the company's cash flow and revenue projections.

Opportunities include: exploring a diverse range of sectors and business areas to develop a healthy revenue stream; learning from the experience of other jurisdictions and continually expanding British Columbia's base of P3 knowledge and expertise.

On balance, Partnerships BC is well positioned to take advantage of business opportunities and to mitigate risks. Its challenge in the years ahead is to implement successful P3s that will pave the way for further growth and development in this emerging sector.

Corporate Governance

In 2002/03, Partnerships BC was governed by an interim board of directors reporting to the shareholder, the Minister of Finance.

The company's senior management team consisted of:

Larry Blain	President and Chief Executive Officer
Steve Hollett	Senior Vice President
Al Sakalauskas	Chief Operating Officer
Suromitra Sanatani	Vice President, Corporate Relations

partnerships
British Columbia

Partnerships British Columbia
Audited Financial Statements
Year Ending March 31, 2003

PARTNERSHIPS BRITISH COLUMBIA INC.
Financial Statements
Year ended March 31, 2003

Management Report

The financial statements of Partnerships British Columbia Inc., for the year ended March 31, 2003, have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements present fairly the financial position of Partnerships British Columbia Inc. as at March 31, 2003.

Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records provide reliable information for the preparation of financial statements.

The Board of Directors carries out its responsibility for the review of the financial statements. The Board meets with management and the external auditor to discuss the results of audit examinations and financial reporting matters. The external auditor has full access to the Board.

The Auditor General of British Columbia has performed an independent audit of the financial statements of Partnerships British Columbia Inc. The Auditor's report outlines the scope of his examination and expresses an opinion on the financial statements of Partnerships British Columbia Inc.

Larry Blain
President and Chief Executive Officer
Partnerships British Columbia Inc.

Robert Bennett, CFA
Chief Financial Officer
Partnerships British Columbia

Report of the Auditor General of British Columbia

To the Board of Directors of
Partnerships British Columbia Inc., and

To the Shareholder of Partnerships British Columbia Inc.:

I have audited the balance sheet of *Partnerships British Columbia Inc.* as at March 31, 2003 and the statements of earnings and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *Partnerships British Columbia Inc.* as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
May 28, 2003

Wayne Strelioff, CA
Auditor General

PARTNERSHIPS BRITISH COLUMBIA INC.

Balance Sheet
As at March 31, 2003

ASSETS

Current Assets	
Cash and cash equivalents (Note 3)	$4,135,086
Accounts Receivable (Note 4)	3,629,161
Other Current Assets	161
Total Current Assets	7,764,408
Capital Assets (Notes 2 and 5)	297,526
Total Assets	**$8,061,934**

LIABILITIES

Current Liabilities	
Accounts Payable	$2,375,261
Accrued Liabilities	1,128,975
Total Liabilities	**3,504,236**

SHAREHOLDER'S EQUITY

Share Capital	
Authorized:	
5,000,000 Common Shares, no par value	
Issued:	
2 Common Shares	2
Contributed Surplus	4,584,626
Retained Earnings	(26,930)
Total Shareholder's Equity	**4,557,698**
Total Liabilities and Shareholder's Equity	**$8,061,934**

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

Larry Blain
Director, President and CEO

Algis Sakalauskas
Director and COO

PARTNERSHIPS BRITISH COLUMBIA INC.

Statement of Earnings and Retained Earnings
Year Ended March 31, 2003

REVENUES

Retainer for Services (Note 2)	$3,353,000
Fee for Services	30,328
Other Revenue	117,109
	3,500,437

EXPENSES

Operating Expenses:	
Salaries and Benefits	$1,929,609
Human Resources Costs	48,998
Professional Services	815,091
Information Systems Costs	126,531
Administration Costs	251,018
Travel Expenses	102,149
Building Occupancy Costs	201,752
Communications Costs	13,864
Total Operating Expenses	3,489,012
Eligible Project Expenses (Note 6)	3,139,230
Less: Project Reimbursements	(3,139,230)
Amortization	38,355
	3,527,367
Net Earnings (Loss)	**($26,930)**
Retained Earnings, beginning of year	**0**
Retained Earnings, end of year	**($26,930)**

The accompanying notes are an integral part of these financial statements.

PARTNERSHIPS BRITISH COLUMBIA INC.

Statement of Cash Flows
Year Ended March 31, 2003

Operating Activities	
Earnings (Loss) from Operations	$ (26,930)
Items not effecting cash	
Amortization	38,355
Changes in non-cash operating working capital	(134,529)
	(123,104)
Investing Activities	
Additions to capital assets (Note 5)	(335,881)
	(335,881)
Net (decrease) in cash and cash equivalents	(458,985)
Cash and cash equivalents, beginning of year	4,594,071
Cash and cash equivalents, end of year (Note 3)	$ 4,135,086

The accompanying notes are an integral part of these financial statements.

1. Statement of Purpose:

Partnerships British Columbia Inc. (PBC or the "Company") is a company owned by the Province of British Columbia (the "Province") and governed by a board of directors reporting to its shareholder, the Minister of Finance. The Company has been mandated to promote Public-Private Partnerships (P3s) and to advise, support and, in some cases, manage the creation of P3s and to carry out related activities. The mandate of the Company is to maximize the value to the Province of public capital assets, such as hospitals, educational facilities, and highways and to minimize the cost and improve the quality of government services provided using these assets.

The company's core business is to:

- Provide advice to the Province and its agencies on P3 project management, deal structure, risk management, procurement; and the selection and engagement of consultants;
- Foster a positive business and policy environment for successful P3s and related activities by continually expanding British Columbia's base of knowledge, understanding and expertise in these emerging areas; and
- Manage an efficient and leading edge organization that meets or exceeds performance expectations.

The Company's clients are public sector agencies, including ministries, Crown corporations, and local authorities such as Regional Health Districts. To serve these clients effectively, PBC is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

PBC was incorporated on October 26, 1977 (as Duke Point Development Limited) under the *Company Act* as a wholly-owned government corporation of the Province. In March 2002, Duke Point Development Limited transferred all property to the Province and ceased all business activities. Also in March 2002, the Province authorized the elimination of the accumulated deficit of Duke Point Development Limited through a transfer of contributed surplus. On May 8, 2002 the name was changed to Partnerships British Columbia Inc.

2. Significant Accounting Policies:

a. Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b. Short term investments:

Short term investments consist of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost and fair market value.

c. Capital assets:

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives. Assets costing less than $500 are expensed in the fiscal period purchased. Estimated useful lives are:

Computer Software	2 years
Computer Hardware	3 years
Furniture & Equipment	5 years
Leasehold Improvements	5 years
Website Development	3 years

d. Federal and provincial taxes:

PBC is exempt from corporate income taxes; however, it is subject to the *Goods and Services Tax*.

e. Revenue recognition:

Retainer for Services: As per the April 1, 2002 Public Private Partnerships Agreement between the Province and PBC, the Retainer for Services will cover indirect project costs and specific project costs ineligible for reimbursement by the Province and is recognized on a monthly basis.

Fee for Services: charged by PBC for professional services rendered and are recognized during the fiscal period earned.

Other Revenue: substantially consists of interest earned on investments which is recognized in the fiscal period earned.

Project revenues: e.g. Reimbursements of eligible expenses are recognized in the period the expenses are incurred.

f. Related parties:

PBC is related through common ownership to all Province of British Columbia ministries, agencies and Crown Corporations. Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amounts. Transfers of assets are recorded at net book value.

g. Accounting estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available. Such estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from the amounts estimated.

3. Cash and Cash Equivalents:

	Cost	Market
Cash	732,690	732,690
Short term investments	3,407,297	3,402,396
	4,139,987	4,135,086

4. Accounts Receivable:

At March 31, 2003, this consists of receivables from the Ministry of Finance for the Retainer for Services and reimbursable project costs and one $25,000 Note Receivable. The Note Receivable is due on September 10, 2003 without interest, and after September 10, 2003 will bear interest up to and including the date of payment at a rate of 20% per annum.

5. Capital Assets:

	Cost	Accumulated Amortization	Net Book Value
Computer Software	66,029	15,744	50,285
Computer Hardware	56,183	4,657	51,526
Furniture & Equipment	130,256	12,302	117,954
Leasehold Improvements	65,015	5,652	59,363
Website Development Costs	18,398		18,398
	335,881	38,355	297,526

6. Net Eligible Project Expenses:

Under a Public Private Partnerships Agreement between the Province and PBC, dated April 1, 2002, PBC may assume responsibility for costs for certain non-P3 projects, projects under development and certain small projects. These costs are included in operating expenses.

For certain P3 projects, PBC will be reimbursed by its client for eligible expenses. These reimbursements are netted against the eligible expenses. In the current year there were two active projects containing eligible expenses, Coquihalla and Sierra Yoyo Desan (SYD). The projects have been undertaken to:

- Coquihalla – facilitate a P3 for the long-term maintenance and operation of the Coquihalla Highway; and
- SYD – facilitate a P3 for upgrades and the long-term maintenance and management of the Sierra Yoyo Desan Road.

Eligible expenses for these projects, which have been netted against reimbursements received or receivable, are:

Project	Amount
Coquihalla	3,136,895
Sierra Yoyo Desan (SYD)	2,335
	3,139,230

7. Commitments:

At the end of the year, PBC had a number of commitments outstanding: general commitments with terms to July 2003 valued at $57,747; the Victoria office lease agreement to August 2007 for $989,972 ($222,258 in fiscal 2003/04); and the Vancouver office lease agreement to March 2006 for $249,930 ($54,054 in fiscal 2003/04). Such future expenditures are charged in the year the work or service is performed.

8. Employee Benefit Plans:

PBC and its employees contribute to the Public Service Pension Plan under the terms of the *Public Sector Pension Plans Act*. The Public Service Pension Plan is a multi-employer, defined-benefit pension plan and is available to substantially all PBC employees.

The British Columbia Pension Corporation administers the Plan, including payment of pension benefits on behalf of employers and employees to whom the *Act* applies. The most recent valuation (March 31, 2002) has determined the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship whereby the management, risks and benefits are shared between the employees and the employers.

Employees are entitled to specific retirement benefits as provided for under their terms of employment. The cost of employee future benefits for this plan is recognized as an expense in the year contributions are paid.

9. Financial Instruments:

a. *Fair value:*
   At March 31, 2003, the carrying value of financial instruments, including accounts receivable and payable, approximates their fair value. The fair value of short term investments is disclosed in Note 3.
b. *Interest rate risk:*
   Interest rate risk is limited due to the short term nature of the investments held.
c. *Credit risk:*
   The Company grants credit to its clients, the majority of whom are provincial government ministries or other government entities. Credit risk is limited due to the fiscal stability of these clients.

10. Comparative Figures:

As PBC's mandate is significantly different from that of Duke Point Development Limited, comparative figures have not been stated.